STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-483

November 24, 2003

VERIZON MAINE, Implementation of
2002 Amendments to Chapter 204

ORDER APPROVING
INCREASES TO LOCAL RATES
FOR BSCA EXPANSIONS AND
BSCA CALCULATIONS
(SUBJECT TO TRACKING)

WELCH, Chairman; DIAMOND and REISHUS Commissioners

I. SUMMARY

In this Order, we approve the proposal filed by Verizon of New England Inc. d/b/a Verizon Maine (Verizon) to increase its rates for local service by $0.64 for all rate classes in conjunction with implementation of expansions to its basic service calling areas (BSCAs).[1] These changes take effect on December 15, 2003.

II. BACKGROUND

On October 16, 2003, Verizon Maine filed a proposal (including changes to its rate schedules and terms and conditions) to increase local rates for the purpose of offsetting the expected revenue effects from expansions to the Company's basic service calling areas.

The BSCA expansions are required by the November 2002 amendments to Chapter 204 and will become effective on December 15, 2003. All LECs will experience access revenue losses because calls to the contiguous exchanges that are being added to the BSCAs previously were long distance toll calls, but will become local. Verizon, in addition, will lose toll revenue for calls to contiguous exchanges because it provides retail toll services. Thus, for Verizon all the access and toll revenue associated with those minutes will be lost. The local rate increases proposed by the Company are designed to offset those losses on a

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[1] At the same time that Verizon implements BSCA expansions, it will also eliminate "rate groups." Under the rate group regime, a customer who can call a greater number of other customers without toll charges is in a higher "rate group" and has a higher rate than a customer who can call a smaller number of customers. *See Maine Public Utilities Commission, Investigation of Proposed Rate Design by Verizon Maine to Eliminate Multiple Rate Groups Through Consolidation Into a Single Statewide Rate Group*, Docket No. 2003-512, Order (October 17, 2003). The elimination of rate groups is revenue-neutral, so that customers who are in higher rate groups will see a rate reduction from that effect and those in lower rate groups will face an increase. The net effect of the BSCA and rate group changes together is that customers who formerly were in the highest rate group will see an increase of $0.12. All other customers will see larger net increases that vary depending on their former rate group. The rate changes from both effects and the net changes are shown for the largest group of customers (Residential Premium) in a table attached to this Order.

revenue-neutral basis. It is difficult to calculate precisely the rate changes need to achieve revenue neutrality.

III. DISCUSSION

In its October 16, 2003 filing, Verizon provided calculations of the BSCA revenue losses for toll and access and estimates of revenue gains from local rate changes. The BSCA-related revenue changes include retail toll and access revenue losses that will occur because calls to the areas that are being added to the Company's BSCAs previously incurred long distance toll charges (and generated retail toll and access revenues for the Company), but are now local calls. Revenue for local service also will change because of the rate increases and changes in the mix of subscribership to the Premium and Economy options, as well as the change in the rate (from 25 cents per call to 5 cents a minute) for economy customers who call outside the flat-rate calling areas of their Economy option but within the BSCA. As discussed in greater detail below, it is difficult to predict some of these elements. The Company has not yet provided estimates of small amounts of BSCA-related facility and administrative costs.

Verizon estimates that the losses will equal $0.64 per line and has proposed an increase by that amount to all of its rates for local service. We approve that amount provisionally, subject to the revenue loss tracking mechanisms required by this Order and possible rate adjustments.

Chapter 204, § 5(A) states that a LEC that implements new or modified BSCAs may propose rates that will cover its additional costs and net revenue losses that are attributable to those BSCA changes. Section 5(C) requires LECs to "track" revenue effects for a period of at least 12 months. If the LEC's net revenue loss is greater than predicted (i.e., greater than the prediction upon which the rates approved pursuant to Section 5(A) were based), the LEC may request recovery of the shortfall and propose rates that will collect the correct amount of revenue loss. If the LEC's net revenue loss is less than predicted (and included in rates approved pursuant to Section 5(A)), it must return the excess to customers and must propose future rates that will collect the correct amount to offset the revenue loss.

Verizon provides retail toll services directly to its own customers and access services to other interexchange carriers who provide retail toll services to Verizon customers. It is not necessary to engage in a tracking exercise for the lost access revenues and the billing and collection (B&C) revenues associated with the lost access minutes. (Indeed, it is impossible to "track" something that no longer exists.) Once these amounts are calculated, they do not change for ratemaking purposes. The number of minutes and messages (and, therefore, access and B&C revenue) that Verizon will lose as a result of the BSCA expansions during the test period is known now. There is only one set of access rates applicable the traffic to each of the contiguous exchanges that are being added to BSCAs.

It is substantially more difficult, however, to calculate in advance the amount of retail toll revenue that Verizon will lose as a result of losing the contiguous exchange portion of its toll traffic. Verizon was able to calculate an effective average rate, i.e., its average revenue per minute (ARPM), for *all* of its retail toll traffic. However, because of the large number of rates and rate plans presently available, it is very difficult to calculate an effective average rate per minute for the subset of traffic to the contiguous exchanges. Verizon has a number of calling plans that have monthly minimum charges (with usage included) and monthly fees (with no usage included). Many of these plans have per-minute rates substantially lower than the ARPM used by Verizon in its original filing. It is not possible from the filing (or from information otherwise available from Verizon) to determine whether customers use these plans in greater (or lesser) proportions for short-haul calling (such as to contiguous exchanges). It is possible that some subscribers to options (such as Pine Tree) that have a monthly minimum charge ($5.40 in the case of Pine Tree) will no longer use the full amount of minutes included in the minimum charge, but will continue to subscribe and continue to pay the full amount of the minimum anyway. Others may stop subscribing to the plan, so that all of the minimum charge revenue from those customers is lost. Verizon, however, simply assumed a reduction in revenues from minimum and up-front charges equal to the percentage loss of its usage-sensitive billing units (e.g., minutes). It therefore is not possible to tell whether the effective APRM for traffic to the contiguous exchanges is the same or different from the overall ARPM.

We will require Verizon to determine the retail toll loss from calling to contiguous exchanges by the following method.[2] Verizon shall take two "snapshots" of toll revenue before and after the implementation of the BSCA expansions. The first shall be for October 2003; the second for March 2004. Both of these months are as reasonably close to the implementation date, without including significant holiday periods; both months have 31 days. Using months that are close to the implementation date acts to filter out "noise," i.e., other effects that might cause changes in toll usage or revenues. The only significant event that is likely to occur between October and March and that should have a major impact on toll revenues is the BSCA implementation.[3] Using March rather than January for the post-implementation test period avoids a time period (January) when customers may still be making decisions about whether to retain or abandon toll calling plans (such as Pine Tree).

For both months, Verizon shall determine its total retail toll revenue. It shall then divide the toll revenue for each of the two months by the average number of presubscribed lines[4] the Company had during each of the two months, thereby resulting in calculations of average toll revenue per presubscribed line for October and March. The Company shall then multiply each of the these amounts by its number of presubscribed lines on the same date (or period) it used for the calculation in its filing. Using presubscribed lines in this calculation in the manner described will produce revenue amounts for October and March that exclude the effect of changes in the number of presubscribed lines between the two months.

In addition to the foregoing, the Company will also make a control calculation. In this calculation, it will use the toll revenue for the same months but limited to those exchanges that are not adding any BSCA routes (i.e., those whose BSCAs already include all contiguous exchanges). It will make the same toll revenue per presubscribed line calculations as for total toll revenue, using the numbers of presubscribed lines in the control exchanges. This information may be used for the purpose of normalizing seasonal as well as other differences

[2] The Commission staff and Verizon agreed upon this method following discussions.

[3] Verizon states that it has not had any changes in its retail toll rates since October 1, 2003, and has no plans for any prior to March 31, 2004.

[4] The Company may determine the average by using a daily average or an average of lines at the beginning and end of both of the months.

that may occur between October and March, but which are not related to changes in BSCAs. We do not order the Company at this time to use this information for normalizing purposes, but it must provide it to the Commission. After discussions with the Company, we will decide whether and how to apply it to the basic calculation described above.

The difference between those two amounts calculated for October 2003 and March 2004 (either adjusted or not adjusted for the control study) will constitute the toll loss attributable to the implementation of the BSCA expansions. That difference will then be compared to the Company's estimate of $4.9 million retail toll loss provided in the filing in this case.

If necessary, we will adjust ongoing rates and determine whether (and when) to make ratepayers or the Company whole for any overcollection or undercollection during the first few months following the implementation of the BSCA expansions. To the extent necessary, pursuant to Chapter 204, § 7, we grant a waiver from the tracking requirement of Section 5(C)(1), which requires tracking of "revenue effects for the first 12 months… ."

The Company has also provided calculations of local revenue effects. One of those components is the revenue loss from the elimination of the rate of 25 cents per call for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option. That component will be permanently lost. (It is being replaced by a rate of 5 cents per minute.) As in the case of the access revenue loss (described above), it is relatively easy to calculate, and its amount is known in advance.

It is necessary, however, to track the amount of new local revenue that will offset the various revenue loss components described above. New local revenues include revenues available from the increases to local rates for both the Premium and Economy options and from the new rate of 5 cents per minute for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option (replacing the 25 cents per-call rate). These revenues cannot be fully predicted because the realized mix of customers subscribing to the Premium and Economy options may differ from predicted levels. Predictions are difficult to make because, ultimately, only customers can determine which of the calling options has greater value to them, and the calling areas available under each option will have changed. It is also difficult to predict revenues that the Company will receive from the new 5 cents per minute rate. The new rate may be more attractive to some customers and less attractive to others than the former rate of 25 cents per call, and the change might even influence customer choice for the two calling options.

The Company shall track the replacement local revenues for 12 months and report the results to the Commission on or before March 15, 2005. Because notice of the BSCA changes will be relatively close to the December 15, 2003 implementation date, and many customers may not respond immediately to the calling options contained in the notice, we believe it makes sense for the 12 months of tracking of new local revenues to begin on February 1, 2004. The results shall be compared to the projections used in the October 16, 2003 filings. The Company may experience other changes in sales that may need to be taken into account in any possible revisions following the BSCA tracking period. The Company, on or before March 15, 2005, shall therefore file billing units for all their services, including numbers of access lines and access minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period[5]

As noted above, Verizon did not propose to include any cost changes in the rates it has proposed in this proceeding. If it does so in the future, we will consider such a proposal in the same manner we have addressed the issue in the various orders in the BSCA proceeding for other local exchange carriers.

IV. RATE CHANGES

The table below sets forth the rate changes for Verizon residential Premium customers resulting both from the BSCA changes approved in this Order and the rate group elimination ordered in Docket No. 2003-512. The resulting local rate for all residential premium customers is $18.81.

Residential Premium Customers Rate Changes from BSCA Expansions (adding contiguous exchanges) and Rate Group Elimination						
	Rate Group A	**Rate Group B**	**Rate Group C**	**Rate Group D**	**Rate Group E**	**Rate Group F**
Present Rate	$15.79	$16.63	$17.00	$17.41	17.84	$18.69
Rate Group Elimination	$2.38	$1.54	$1.17	$0.76	$0.33	($0.52)
BSCA Changes	$0.64	$0.64	$0.64	$0.64	$0.64	$0.64
TOTAL RATE INCREASE	**$3.02**	**$2.18**	**$1.81**	**$1.40**	**$0.97**	**$0.12**
New Rate	$18.81	$18.81	$18.81	$18.81	$18.81	$18.81

Rate *changes* for residential Economy customers who subscribe to the Economy BSCA option are identical. Present rates for the Economy option are $1.50 less than those for the Premium option. The new rate for Economy customers is $17.31.

For Business rates, the change due to BSCA changes is $0.64. The changes due to rate group elimination are similar, but not identical, to those for residential subscribers.

V. ORDERING PARAGRAPHS

Accordingly, we

1. APPROVE, pursuant to Chapter 204, § 5(A), the local exchange service rates increases proposed by Verizon Maine in this docket;

2. APPROVE the initial calculations by Verizon Maine of expected revenue losses and gains and cost changes as a result of BSCA expansions, subject to the maintenance by

[5] A large change in the number of lines will affect revenues, but that revenue change will not be a result of changes in revenues from customers attributable to the BSCA changes. Line data will allow the Commission to calculate a revenue effect per line and thereby filter out effects due to line losses or gains.

the Company of tracking accounts and the reporting of the tracking results, as described herein;

3. ORDER Verizon Maine to maintain a tracking account from February 1, 2004 until January 31, 2005 for net revenue changes (from changes in local rates and billing units) resulting from additions to basic service calling areas (BSCAs) that will become effective on December 15, 2003; for that purpose the Company shall hold constant in the tracking account the retail toll revenue loss as calculated pursuant to Paragraph 5 and the calculations in its filing of October 16, 2003 for access revenue loss and loss of revenue from the elimination of the rate of $.25 per call described herein, and shall track the effects of the local revenue increases approved herein;

4. ORDER Verizon Maine, on or before March 15, 2005, to report to the Commission the results of the tracking account described in paragraph 3 and changes in the number of lines; to provide a proposal for reimbursement of customers for any over-funding consistent with the requirements of Chapter 204, § 5(C) and this Order; and to propose a rate adjustment for future rates if the rates approved herein result in over-collection;

5. ORDER Verizon Maine to calculate its retail toll revenue loss using the method described in Part III of this Order, and to provide the results of its calculation and all necessary backup material on of before April 30, 2004; and

6. ORDER Verizon Maine, on or before March 15, 2005, to file billing units for all their services, including numbers of access lines and access minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.

Dated at Augusta, Maine, this 24th day of November, 2003.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.